

CALIFORNIA STATE TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

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SUBJECT: Approval of Minutes of the March 3, 1999  
Investment Committee, Open Session

ITEM NUMBER: 3

ATTACHMENT(S): 1

ACTION: X

DATE OF MEETING: April 7, 1999

INFORMATION: \_\_\_\_\_

PRESENTER(S): Chairperson

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Proposed minutes of the Investment Committee Meeting held in open session March 3, 1999 are submitted on the following pages.

**PROPOSED  
MINUTES OF THE  
INVESTMENT COMMITTEE MEETING  
OF THE  
CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM  
MARCH 3, 1999  
OPEN SESSION  
ROBYN D. MILLER BOARD ROOM  
7667 FOLSOM BOULEVARD  
SACRAMENTO, CALIFORNIA**

**COMMITTEE MEMBERS PRESENT**

Gary Lynes, Chairperson  
Yvonne Gallegos Bodle  
George Fenimore  
Marty Mathiesen  
Lillian Raffel  
Emma Zink  
Phil Angelides, State Treasurer  
Julie Bornstein, representing State Controller, Kathleen Connell  
Richard Whitmore, representing Superintendent  
of Public Instruction, Delaine Eastin  
Annette Porini, representing State Director of Finance, Tim Gage

**ALSO PRESENT**

James Mosman, Chief Executive Officer  
Patrick Mitchell, Chief Investment Officer  
Elleen Okada, Director of Investment Admin. and External Relations  
Chris Waddell, Chief Counsel  
Michael Picker, Deputy State Treasurer  
Chris Drevalas, Treasury Program Manager  
Ed Derman, DCEO, External Affairs and Program Development  
Doug Wills, Staff Counsel  
Mitch Pleis, Director of Real Estate  
Real Desrochers, Director of Alternative Investments  
Michelle Cunningham, Director of Fixed Income  
Steven Tong, Director of Internal Equities  
Richard Rose, Investment Officer  
Allan Emkin, Pension Consulting Alliance  
Doug Le Bon, Pathway Capital Management  
Marek Gumienny, Candover  
John Burgess, B. C. Partners  
Kevin Landry, TA Associates, Inc.  
George Wichman, California Teachers' Association  
Edna White, California Retired Teachers' Association  
Beverly Carlson, California Teachers' Association  
Loretta Toggenburger, United Teachers of Los Angeles  
Charles C. Girratana, California Teachers' Association  
Bill Collins, California Teachers Association

Dorothy Moser, United Teachers Los Angeles, Retired  
Mary Ann Avansino, Executive Assistant

A quorum being present, Chairperson Lynes called the open session meeting to order at 9:35 a.m.

I. **ANNOUNCEMENTS** (Item 2)

Chairperson Lynes introduced Ms. Porini, representing the Department of Finance.

II. **APPROVAL OF MINUTES OF THE FEBRUARY 3, 1999 INVESTMENT COMMITTEE, OPEN SESSION** (Item 3)

MOTION duly made by Mr. Fenimore, seconded by Ms. Zink and carried to approve the minutes of the February 3, 1999 Investment Committee, Open Session as presented.

III. **ALTERNATIVE INVESTMENTS – PANEL ON NON-U.S. ALTERNATIVE INVESTMENTS** (Item 4)

Mr. Mitchell introduced Messrs. Gumienny, Burgess and Landry. The panelists presented information on alternative investment opportunities in the United Kingdom and Europe, the similarities and differences between the business in Europe and the United States, the effects of the Euro, and a comparison of growth company opportunities in the United States and Europe.

Dr. Bodle arrived at the meeting at 9:50 a.m.

The panelists engaged in a group discussion with the Committee.

Mr. Angelides arrived at the meeting at 10:30 a.m.

Chairperson Lynes recessed the meeting at 10:35 a.m.  
The meeting reconvened at 10:50 a.m.

IV. **ALTERNATIVE INVESTMENTS – CO-INVESTMENT POLICY** (Item 5)

Messrs. Desrochers and Rose reviewed co-investments and their role within the alternative investment portfolio. Discussion ensued. Staff was directed to incorporate the policy revisions and present the updated Alternative Investments Policy for Committee approval at the April meeting.

V. **ALTERNATIVE INVESTMENTS – AUDIT FINDINGS** (Item 6)

Mr. Mitchell reviewed an audit finding which identified eleven partnerships in which management fees are paid outside the capital commitment. Discussion ensued.

MOTION duly made by Mr. Fenimore, seconded by Mr. Angelides and carried to approve an increase in the capital commitment to include the management fees for Blackstone II, Blackstone III, Charterhouse, Charterhouse II, Kelso V, Cypress II, KKR 1996, Stonington 1994, THL III, THL IV, and Whitney 1990.

VI. **LEGISLATION** (Item 7)

Mr. Derman reported that there were no new bills affecting investments.

VII. **ALTERNATIVE INVESTMENTS - ACTIVITY STATUS REPORT** (Item 16)

Mr. Desrochers presented the written report and reported on a \$300 million investment made, under delegation, to Madison Dearborn Capital Partners III, L.P.

Chairperson Lynes recessed the meeting at 12:40 p.m.  
The meeting reconvened at 1:10 p.m.

VIII. **MOVE TO CLOSED SESSION**

Chairperson Lynes recessed the open session meeting at 1:10 p.m. and moved directly into closed session.

IX. **RETURN TO OPEN SESSION**

Chairperson Lynes reconvened the open session meeting at 1:20 p.m.

X. **EXTERNAL EQUITY – SOFT DOLLAR DISCUSSION** (Item 8)

Ms. Okada and Mr. Emkin discussed soft dollar programs and CalSTRS' use of soft dollars. Discussion ensued. An updated Soft Dollar Policy will be presented to the Committee for approval in April.

XI. **FIXED INCOME – PERFORMANCE BENCHMARK REVIEW** (Item 9)

Ms. Cunningham and Mr. Emkin discussed the role of fixed income and issues to consider in benchmark selection as well as the use of CalSTRS' current performance benchmark, the Salomon Brothers' Large Pension Fund Index (LPF Index). Staff and Consultant concluded that the LPF Index is still the appropriate benchmark for CalSTRS' domestic long-term core fixed income assets.

XII. **CORPORATE GOVERNANCE - DISCUSSION** (Item 10)

Ms. Okada and Ms. Hester Amey discussed the definition, history and activity of corporate governance.

Mr. Angelides left the meeting at 2:35 p.m. Mr. Picker assumed representation for the State Treasurer.

Chairperson Lynes recessed the meeting at 2:40 p.m.  
The meeting reconvened at 2:45 p.m.

XIII. **GENERAL – SUBCOMMITTEE ON CORPORATE GOVERNANCE** (Item 11)

Mr. Mitchell gave a brief history of the Subcommittee on Corporate Governance. Discussion ensued. Members of the Investment Committee interested in serving on the Subcommittee on Corporate Governance were; Mr. Picker, Ms. Porini, Mr. Whitmore, Dr. Bodle, Mr. Fenimore, Ms. Raffel, and Ms. Zink.

MOTION duly made by Ms. Zink, seconded by Ms. Porini and carried to reestablish the Subcommittee on Corporate Governance.

Ms. Zink, the Board chairperson appointed the State Treasurer chairperson of the Subcommittee on Corporate Governance.

XIV. **SIGNIFICANT EVENT POLICY** (Item 12)

At a previous meeting, Staff was directed to investigate and present for discussion alternative methods to handle unanticipated investment decisions requiring action. Mr. Mitchell reviewed possible investment issues as well as emergency meeting issues. Discussion ensued. The Committee directed Staff to bring back an item defining various unanticipated or emergency investment situations and procedures for handling the

situations. The Committee directed review of Board emergency meeting guidelines to the Ad Hoc Governance Committee.

- XV. **INVESTMENT EXPENDITURES AND OTHER INCOME – UPDATE** (Item 13)  
Ms. Okada discussed the written report, which included actual investment expenditures for support and continuous appropriation budgets for 1996/97 and 1997/98, projected expenditures for 1998/99, and securities lending income for 1996/97 and 1997/98.
- XVI. **ACTIVITY STATUS REPORT – CREDIT ENHANCEMENT** (Item 14)  
Mr. Rose presented the written report as well as an update on credit enhancement for schools.
- XVII. **ACTIVITY STATUS REPORT – REAL ESTATE** (Item 15)  
Mr. Pleis presented the written report. He announced that the finalist interviews for the RFP for Real Estate manager(s) would be held on March 9<sup>th</sup> and 10<sup>th</sup>.
- XVIII. **REPORT OF THE CHIEF INVESTMENT OFFICER** (Item 17)  
Mr. Mitchell reviewed the written report. A list of the respondents to the RFP for General Consultant(s) was given to the Committee. Discussion ensued regarding Board participation in the initial review of the responses.
- MOTION duly made by Ms. Zink, seconded by Mr. Fenimore and carried to comprise the review committee for the RFP for General Consultant(s) of the Chief Executive Officer, the Chief Investment Officer and an additional staff member.
- XIX. **OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC** (Item 18)  
There were no statements from the public.
- XX. **MOVE TO CLOSED SESSION**  
Chairperson Lynes recessed the meeting at 3:45 p.m. and reconvened directly into closed session at 3:45 p.m.
- XXI. **ADJOURNMENT**  
Chairperson Lynes announced that while in closed session, the Committee discussed matters pertaining to investment decisions. There being no further business to conduct, Chairperson Lynes adjourned the meeting at 4:35 p.m.

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James D. Mosman, Chief Executive Officer and Secretary to the  
Teachers' Retirement Board

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Gary Lynes, Chairperson